APPENDIX C

DEPARTMENTAL CONSIDERATIONS TO ESTABLISH THE SPECIAL AFFORDABLE HOUSING GOAL

A. Introduction

1. Establishment of the Goal

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) requires the Secretary to establish a special annual goal designed to adjust the purchase by each GSE of mortgages on rental and owner-occupied housing to meet the unaddressed needs of, and affordable to, low-income families in low-income areas and very-low-income families (the Special Affordable Housing Goal).

In establishing the Special Affordable Housing Goal, FHEFSSA requires the Secretary to consider:

1. Data submitted to the Secretary in connection with the Special Affordable Housing Goal for previous years;

2. The performance and efforts of the GSEs toward achieving the Special Affordable Housing Goal in previous years;

3. National housing needs of targeted families;

4. The ability of the GSEs to lead the industry in making mortgage credit available for low-income and very-low-income families; and

5. The need to maintain the sound financial condition of the enterprises.

2. The Goal

The final rule provides that the Special Affordable Housing Goal is 18 percent of the total number of dwelling units financed by each GSE's mortgage purchases in 2000, and 20 percent in 2001-2003. Of the total Special Affordable Housing Goal for each year, in 2000 each GSE must purchase multifamily mortgages in an amount at least equal to 0.9 percent of the 1998 total dollar volume of mortgages purchased by the GSE, rising to 1.0 percent in 2001-2003.[1]

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[1] While this proposed rule specifically proposes a dollar based subgoal, the Department is considering three alternative approaches to structuring the Special Affordable multifamily subgoal – a mortgage-based subgoal, a dollar-based subgoal, and a unit-based subgoal. These alternative approaches are described in the Preamble and in Section D of this Appendix.

Approximately 23-26 percent of the conventional conforming mortgage market in 2000 would qualify under the Special Affordable Housing Goal as defined in the proposed rule, as projected by HUD.

Units that count toward the goal: Subject to further provisions specified below, units that count toward the Special Affordable Housing Goal include units occupied by low-income owners and renters in low-income areas, and very-low-income owners and renters. Other low-income rental units in multifamily properties count toward the goal where at least 20 percent of the units in the property are affordable to families whose incomes are 50 percent of area median income or less, or where at least 40 percent of the units are affordable to families whose incomes are 60 percent of area median income or less.

B. Underlying Data

In considering the factors under FHEFSSA to establish the Special Affordable Housing Goal, HUD relied upon data gathered from the American Housing Survey through 1995, the Census Bureau's 1991 Residential Finance Survey, the 1990 Census of Population and Housing, Home Mortgage Disclosure Act (HMDA) data for 1992 through 1997, and annual loan-level data from the GSEs on their mortgage purchases through 1997. Appendix D discusses in detail how these data resources were used and how the size of the conventional conforming market for this goal was estimated.

Section C discusses the factors listed above, and Section D provides the Secretary's rationale for establishing the special affordable goal.

C. Consideration of the Factors

1 and 2. Data submitted to the Secretary in connection with the Special Affordable Housing Goal for previous years, and the performance and efforts of the enterprises toward achieving the Special Affordable Housing Goal in previous years.

The discussions of these two factors have been combined because they overlap to a significant degree.

a. GSE Performance Relative to the 1996-98 Goals

This section discusses each GSE’s performance under the Special Affordable Housing Goal over the 1993-98 period. The data presented here are “official results”—i.e., they are based on HUD’s in-depth analysis of the loan-level data submitted annually to the Department and the counting provisions contained in HUD’s regulations in 24 CFR part 81, subpart B. As explained below, in some cases these “official results” differ from goal performance reported to the Department by the GSEs in their Annual Housing Activities Reports.

HUD's goals specified that in 1996 at least 12 percent of the number of units eligible to count toward the Special Affordable goal should qualify as Special Affordable, and at least 14 percent annually beginning in 1997. The actual performance in 1996 through 1998, based on HUD analysis of loan-level data submitted by the GSEs, is shown in Table C.1 and Figure C.1. Fannie Mae surpassed the goal by 3.4 percentage points and 3.0 percentage points, respectively, in 1996 and 1997, while Freddie Mac surpassed the goal by 2.0 and 1.2 percentage points. In 1998, Fannie Mae surpassed the goal by 0.3 percentage points while Freddie Mac surpassed the goal by 1.9 percentage points (Table C.1).

INSERT TABLE C.1, FIGURE C.1, FIGURE C.2, TABLE C.2 and TABLE C.3 HERE

Table C.1 also includes, for comparison purposes, comparable figures for 1993, 1994, and 1995, calculated according to the counting conventions of the 1995 Final Rule that became applicable in 1996. Each GSEs' percentages in 1996, 1997, and 1998 exceeded their percentages in any of the three preceding years.

The Fannie Mae figures presented above are smaller than the corresponding figures presented by Fannie Mae in its Annual Housing Activity Reports to HUD by approximately 2 percentage points in both 1996 and 1997 and 1.3 percentage points in 1998. The difference largely reflects HUD-Fannie Mae differences in application of counting rules relating to counting of seasoned loans for purposes of this goal. In particular, the tabulations reflect inclusion of seasoned loan purchases in the denominator in calculating performance under the Special Affordable goal, as discussed in Preamble section II(B)(6)(c) on the Seasoned Mortgage Loan Purchases "Recycling" Requirement. Freddie Mac's Annual Housing Activity Report figures for this goal differ from the figures presented above by 0.1 percentage point, reflecting minor differences in application of counting rules.

Since 1996 each GSE has been subject to an annual subgoal for multifamily Special Affordable mortgage purchases, established as 0.8 percent of the dollar volume of single-family and multifamily mortgages purchased by the respective GSE in 1994. Fannie Mae's subgoal was $1.29 billion and Freddie Mac's subgoal was $988 million for each year. Fannie Mae surpassed the subgoal by $1.08 billion, $1.90 billion, and $2.24 billion in 1996, 1997, and 1998, respectively, while Freddie Mac surpassed the subgoal by $18 million, $220 million, and $1.70 billion. Table C.1 includes these figures, and they are depicted graphically in Figure C.2.

b. Characteristics of Special Affordable Purchases

The following analysis presents information on the composition of the GSEs' Special Affordable purchases according to area income, unit affordability, tenure of unit and property type (single- or multifamily).

*Increased reliance on multifamily housing to meet goal***.** Tables C.2 and C.3 show that both GSEs have increasingly relied on multifamily housing units to meet the special affordable goal since 1993. Fannie Mae's multifamily purchases represented 44 percent of all purchases qualifying for the goal in 1997, compared with 28.1 percent in 1993. Freddie Mac's multifamily purchases represented 31.5 percent of all purchases qualifying for the goal in 1997, compared to 5.5 percent in 1993. The trends for both GSEs were steadily upward throughout the five-year period.

The other two housing categories -- single-family owner and single-family rental -- both exhibited downward trends for both GSEs. In 1997 Fannie Mae's single-family owner units qualifying for the goal represented 45.9 percent of all qualifying units, and Fannie Mae's single-family rental units were 10.0 percent of all qualifying units. Freddie Mac's single-family owner units qualifying for the goal represented 54.7 percent of all qualifying units, and Freddie Mac's single-family rental units were 13.8 percent of all qualifying units.

Reliance on household relative to area characteristics to meet goal. Tables C.2 and C.3 also show the allocation of units qualifying for the goal as related to the family income and area median income criteria in the goal definition. Very-low-income families (shown in the two leftmost columns in the tables) accounted for 83.4 percent of Fannie Mae's units qualifying under the goal in 1997, compared to 80.2 percent in 1993. For Freddie Mac, very-low-income families accounted for 81.0 percent of units qualifying under the goal in 1997 and 80.3 percent in 1993. In contrast, mortgage purchases from low-income areas (shown in the first and third columns in the tables) accounted for 33.7 percent of Fannie Mae's units qualifying under the goal in 1997, compared to 36.8 percent in 1993. The corresponding percentages for Freddie Mac were 38.3 percent in 1997 and 36.3 percent in 1993. Thus given the definition of special affordable housing in terms of household and area income characteristics, both GSEs have consistently relied substantially more on low-income characteristics of households than low-income characteristics of census tracts to meet this goal.

c. GSEs' Performance Relative to Market

Section E in Appendix A uses HMDA data with GSE loan-level data for home purchase mortgages on single-family owner-occupied properties in metropolitan areas to compare the GSEs' performance in special affordable lending to the performance of depositories and other lenders in the conventional conforming market. The main findings are: (a) both GSEs lag depositories and the overall market in providing mortgage funds for very low-income and other special affordable borrowers; and (b) the performance of Freddie Mac was particularly weak compared to Fannie Mae, the depositories, and the overall market. For example, between 1996 and 1998, special affordable borrowers accounted for 9.8 percent of the home loans purchased by Freddie Mac, 11.9 percent of Fannie Mae's purchases, 16.7 percent of home loans originated and retained by depositories, and 15.3 percent of all home loans originated in the conventional conforming market (see Table A.3 in Appendix A). While Freddie Mac has improved its performance, it has not closed the gap between its performance and that of the overall market. In 1992, special affordable loans accounted for 6.5 percent of Freddie Mac's purchases and 10.4 percent of market originations, for a "Freddie-Mac-to-market" ratio of 0.63. By 1998, that ratio had increased only to 0.73 (11.3 percent versus 15.5 percent). Thus, there is room for Freddie Mac to improve its purchases of home loans that qualify for the special affordable goals.

Section G in Appendix A discusses the role of the GSEs both in the overall special affordable market and in the different segments (single-family owner, single-family rental, and multifamily rental) of the special affordable market. The GSEs' special affordable purchases have accounted for 24 percent of all special affordable owner and rental units that were financed in the conventional conforming market during 1997. The GSEs' 24-percent share of the special affordable market was approximately three-fifths of their 39-percent share of the overall market. Even in the owner market, where the GSEs account for 50 percent of the market, their share of the special affordable market was only 35 percent. This analysis suggests that the GSEs are not leading the single-family market in purchasing loans that qualify for the Special Affordable Goal. There is room for the GSEs to improve their performance in purchasing affordable loans at the lower-income end of the market.

3. National Housing Needs of Low-Income Families in Low-Income Areas and Very-Low-Income Families

This discussion concentrates on very-low-income families with the greatest needs. It complements Section C of Appendix A, which presents detailed analyses of housing problems and demographic trends for lower-income families which are relevant to the issue addressed in this part of Appendix C.

Data from the 1995 American Housing Survey demonstrate that housing problems and needs for affordable housing continue to be more pressing in the lowest-income categories than among moderate-income families, as established in HUD's analysis for the 1995 Final Rule. Table C.4 displays figures on several types of housing problems -- high housing costs relative to income, physical housing defects, and crowding -- for both owners and renters. Figures are presented for households experiencing multiple (two or more) of these problems as well as households experiencing a severe degree of either cost burden or physical problems. Housing problems in 1995 were much more frequent for the lowest-income groups.[2] Incidence of problems is shown for households in the income range covered by the special affordable goal, as well as for higher income households.

INSERT TABLE C.4 HERE

This analysis shows that priority problems of severe cost burden or severely inadequate housing are noticeably concentrated among renters and owners with incomes below 60 percent of area median income (31.5 percent of renter households and 23.8 percent of owner households). In contrast, 3.5 percent of renter households and 7.1 percent of owner households with incomes above 60 percent of area median income, up to 80 percent of area median income, had priority problems. For more than two-thirds of the very-low-income renter families with worst case

[2] Tabulations of the 1995 American Housing Survey by HUD's Office of Policy Development and Research. The results in the table categorize renters reporting housing assistance as having no housing problems.

problems, the **only** problem was affordability -- they do not have problems with housing adequacy or crowding.

4. The Ability of the Enterprises to Lead the Industry in Making Mortgage Credit Available for Low-Income and Very-Low-Income Families

The discussion of the ability of Fannie Mae and Freddie Mac to lead the industry in Section C.5 of Appendix A is relevant to this factor -- the GSEs' roles in the owner and rental markets, their role in establishing widely-applied underwriting standards, their role in the development of new technology for mortgage origination, their strong staff resources, and their financial strength. Additional analysis on the potential ability of the enterprises to lead the industry in the low- and very-low-income market appears below -- in Section D.2 generally, and in Section D.3 with respect to multifamily housing.

5. The Need to Maintain the Sound Financial Condition of the GSEs

HUD has undertaken a separate, detailed economic analysis of this proposed rule, which includes consideration of (a) the financial returns that the GSEs earn on low- and moderate-income loans and (b) the financial safety and soundness implications of the housing goals. Based on this economic analysis and discussions with the Office of Federal Housing Enterprise Oversight, HUD concludes that the proposed goals raise minimal, if any, safety and soundness concerns.

D. Determination of the Goal

Several considerations, many of which are reviewed in Appendixes A and B and in previous sections of this Appendix, led to the determination of the Special Affordable Housing Goal.

1. Severe Housing Problems

The data presented in Section C.3 demonstrate that housing problems and needs for affordable housing are much more pressing in the lowest-income categories than among moderate-income families. The high incidence of severe problems among the lowest-income renters reflects severe shortages of units affordable to those renters. At incomes below 60 percent of area median, 34.7 percent of renters and 21.6 percent of owners pay more than 50 percent of their income for housing. In this same income range, 65.6 percent of renters and 42.4 percent of owners pay more than 30 percent of their income for housing. 31.5 percent of renters and 23.8 percent of owners exhibit “priority problems”, meaning housing costs over 50 percent of income or severely inadequate housing.

2. GSE Performance and the Market

a. GSEs’ Single-Family Performance

The Special Affordable Housing Goal is designed, in part, to ensure that the GSEs maintain a consistent focus on serving the very low-income portion of the housing market where housing needs are greatest. The bulk of the GSEs' low- and moderate-income mortgage purchases are for the higher-income portion of this category. The lowest-income borrowers account for a relatively small percentage of each GSE's below-median income purchases – 25.9 percent of Freddie Mac's 1998 single-family low-mod owner-occupied mortgage purchases financed homes for single-family homeowners with incomes below 60 percent of area median; the corresponding share was 25.6 percent for Fannie Mae in 1998.

b. Single-Family Market Comparisons in Metropolitan Areas

Section C compared the GSEs' performance in special affordable lending to the performance of depositories and other lenders in the conventional conforming market for single-family home loans. The analysis showed that both GSEs lag depositories and the overall market in providing mortgage funds for very low-income and other special affordable borrowers; and that the performance of Freddie Mac was particularly weak compared to Fannie Mae, the depositories, and the overall market. Figure C.3 illustrates these findings. In 1998, special affordable borrowers accounted for 11.3 percent of the home loans purchased by Freddie Mac, 13.2 percent of Fannie Mae's purchases, 17.7 percent of home loans originated and retained by depositories, and 15.5 percent of all home loans originated in the conventional conforming market. Section C also notes that Freddie Mac has improved its performance since 1992, but it has not made as much progress as Fannie Mae has in closing the gap between its performance and that of the overall market. Thus, there is room for both GSEs, but particularly Freddie Mac, to improve its purchases of home loans that qualify for the special affordable goals.

INSERT FIGURE C.3 HERE

c. Overall Market Comparisons

Section C compared the GSEs' role in the overall market with their role in the special affordable market. The GSEs' purchases have provided financing for 2,893,046 dwelling units, which represented 39 percent of the 7,443,736 single-family and multifamily units that were financed in the conventional conforming market during 1997. However, in the special affordable part of the market, the 508,377 units that were financed by GSE purchases represented only 24 percent of the 2,158,750 dwelling units that were financed in the market. Thus, there appears to ample room for the GSEs to improve their performance in the Special Affordable market.

3. Reasons for Increasing the Special Affordable Housing Goal

The reasons the Secretary is increasing the Special Affordable Goal are essentially the same as those given in Section H.4 of Appendix A for the Low- and Moderate-Income Goal. Although that discussion will not be repeated here, the main considerations are the following: Freddie Mac's re-entry into the multifamily market; the underlying strength of the primary mortgage market for lower-income families; the need for the GSEs, and particularly Freddie Mac, to improve their purchases of mortgages for lower-income families and their communities; the existence of several low-income market segments that would benefit from more active efforts by the GSEs; and the substantial profits and financial capacity of Fannie Mae and Freddie Mac. The Department's analysis shows that the GSEs are not leading the market in purchasing loans that qualify for the Special Affordable Goal. There are also plenty of opportunities for the GSEs to improve their performance in purchasing special affordable loans. The GSEs' accounted for only 24 percent of the special affordable market in 1997 -- a figure substantially below their 39-percent share of the overall market.

4. Multifamily Purchases -- Further Analysis

The multifamily sector is especially important in the establishment of the special affordable housing goals for Fannie Mae and Freddie Mac because of the relatively high percentage of multifamily units meeting the special affordable goal as compared with single-family. In 1997, 57 percent of units backing Freddie Mac's multifamily acquisitions met the special affordable goal, representing 31 percent of units counted toward its special affordable goal, at a time when multifamily units represented only 8 percent of total annual purchase volume. Corresponding percentages for Fannie Mae were as follows: 54 percent of units backing multifamily acquisitions met the special affordable goal; multifamily represented 44 percent of units meeting the special affordable goal but only 13 percent of total purchase volume.[3]

Significant new developments in the multifamily mortgage market have occurred since the publication of the current version of the GSE Final Rule in December 1995, most notably the increased rate of debt securitization via Commercial Mortgage Backed Securities (CMBS) and a higher level of equity securitization by Real Estate Investment Trusts (REITs). Fannie Mae has played a role in establishing underwriting standards that have been widely emulated in the growth of the CMBS market. Freddie Mac has contributed to the growth and stability of the CMBS sector by acting as an investor.

Increased securitization of debt and equity interests in multifamily property present the GSEs with new challenges as well as new opportunities. The GSEs are currently experiencing a higher degree of secondary market competition than they did in 1995. At the same time, recent volatility in the CMBS market underlines the need for an ongoing GSE presence in the multifamily secondary market. The potential for an increased GSE presence is enhanced by virtue of the fact that an increasing proportion of multifamily mortgages are originated to secondary market standards.

Despite the expanded presence of the GSEs in the multifamily mortgage market and the rapid growth in multifamily securitization by means of CMBS, increased secondary market liquidity does not appear to have benefited all segments of the market equally. Small properties

[3] Source: HUD analysis of GSE loan-level data. Loans with missing data are excluded from the calculations of the special affordable proportion of multifamily and the multifamily proportion of special affordable.

with 5-50 units appear to have been adversely affected by excessive borrowing costs as described in Appendix A. Another market segment that appears experiencing difficulty in obtaining mortgage credit consists of multifamily properties with significant rehabilitation needs. Properties that are more than 10 years old are typically classified as “C” or “D” properties, and are considered less attractive than newer properties by many lenders and investors

Context. As discussed above, in the 1995 Final Rule, the multifamily subgoal for the 1996-1999 period was set at 0.8 percent of the dollar value of each GSEs’ respective 1994 origination volume, or $998 million for Freddie Mac and $1.29 billion for Fannie Mae. Freddie Mac exceeded the goal by a narrow margin in 1996 and more comfortably in 1997-1998. Fannie Mae has exceeded the goal by a wide margin in all three years.

The experience of the past two years suggests the following preliminary findings regarding the multifamily special affordable subgoal:

- The goal has contributed toward a significantly increased presence by Freddie Mac in the multifamily market.

- Fannie Mae’s performance has surpassed the goal by such a wide margin that it can be reasonably inferred that the goal has little effect on their behavior.

- The current goal is out of date, as it is based on market conditions in 1993-94.

- The goal has remained at a fixed level, despite significant growth in the multifamily market and in the GSEs’ administrative capabilities with regard to multifamily.

- Given that the GSEs have relatively large fixed costs in purchasing multifamily loans, the minimum cost method of meeting the goal involves purchasing a relatively small number of mortgages, each with a relatively large UPB. Thus the goal may provide the GSEs with an additional incentive to purchase mortgages on large properties.

HUD’s proposed rule establishes the multifamily subgoal at 0.9 percent of the dollar volume of combined (single family and multifamily) 1998 mortgage purchases in calendar year 2000, and 1.0 percent in each of calendar years 2001-2003. This implies the following thresholds for the two GSEs:[4]

	2001-2003 (in billions)	2000 (in billions)

[4] HUD has determined that the total dollar volume of the GSEs’ combined (single and multifamily) mortgage purchases in 1998, measured in unpaid principal balance at acquisition, was as follows: Fannie Mae $367.6 billion; Freddie Mac $273.2 billion.

Fannie Mae…...	$3.31	$3.68
Freddie Mac…..	$2.46	$2.73

The proposed subgoal can be compared with Fannie Mae's and Freddie Mac's 1998 multifamily special affordable multifamily acquisition volumes of $3.5 billion and $2.7 billion, respectively.[5] A 1.0 percent dollar-based multifamily subgoal for 2001-2003 would sustain and likely increase the efforts of both GSEs in the multifamily mortgage market, with particular emphasis upon the special affordable segment.

HUD has identified three alternative approaches for specifying multifamily subgoals for the GSEs, as follows:

(1) ***Option One -- Subgoal Based on Number of Units.*** In this approach, the multifamily special affordable subgoal would be expressed as a minimum number of units meeting the Special Affordable Housing Goal. A multifamily subgoal for 2001-2003 established at the level of the dollar-based subgoal defined above, divided by $22,953, which is the average of Fannie Mae's and Freddie Mac's ratios of unpaid principal balance to number of units in multifamily properties counted toward the Special Affordable Housing Goal in 1997 (as determined by HUD) would generate annual multifamily special affordable subgoals of 160,328 units for Fannie Mae and 118,939 units for Freddie Mac. These compare with Fannie Mae's multifamily special affordable multifamily acquisition volumes of 130,374 units in 1997 and 138,822 units in 1998, and Freddie Mac's performance of 56,255 units in 1997 and 120,776 units in 1998.[6] Such a multifamily subgoal for 2001-2003 would sustain and likely increase the efforts of both GSEs in the multifamily mortgage market, with particular emphasis upon the special affordable segment.[7]

(2) ***Option Two – Subgoal As A Percent of GSEs' Current Multifamily Mortgage Purchases.*** Another possible approach is to establish the special affordable multifamily subgoal as a minimum percentage of each GSE's current total dollar volume of multifamily mortgage purchases. For example, the subgoal level for 2001-2003 could be expressed as 58.0 percent of a GSE's multifamily dollar volume. The 58.0 percent threshold under this subgoal option compares with 1997 performance of 54.2 percent for Fannie Mae and 56.6 percent for Freddie Mac.[8] A 58.0 percent multifamily subgoal for 2001-2003 would sustain and likely

[5] HUD analysis of GSE loan-level data.

[6] Source: HUD analysis of GSE loan-level data. Fannie Mae's 1998 performance figures may not fully reflect its multifamily special affordable acquisition capabilities because Fannie Mae did not obtain data necessary to qualify many of their multifamily seasoned loan purchases for the special affordable goal.

[7] If this option were selected, appropriate subgoal thresholds for the year 2000 transition period could be developed.

[8] Source: HUD analysis of GSE loan-level data. 1997 figures are used here because the share of Fannie Mae's multifamily acquisitions meeting the special affordable goal is unusually low in 1998 as noted above because

increase the efforts of both GSEs in the special affordable segment of the multifamily mortgage market.[9]

(3) ***Option Three -- Subgoal Based on Number of Mortgages Acquired.*** Because the GSEs incur relatively large fixed costs in purchasing multifamily mortgage loans, another alternative to the Special Affordable Multifamily Housing Subgoal would be to establish a subgoal that would be based on the number of mortgages acquired. In this approach, the Special Affordable multifamily subgoal would be expressed as a minimum number of each GSEs' total mortgage purchases. If all the units in the property securing the mortgage are not eligible for the Special Affordable Housing Goal, then subgoal performance would be pro-rated based on the number of qualifying units. In other words, if one mortgage secured a 100-unit property and 50 of the units qualified for the Special Affordable Housing Goal, then subgoal credit would be counted as one-half of a mortgage.[10]

A multifamily subgoal for 2001-2003 established at 0.035 percent of 1997 combined single-family and multifamily purchase dollar volume in number of mortgages acquired (as determined by HUD) would generate annual subgoals of 1,129 multifamily special affordable mortgages for Fannie Mae and 854 for Freddie Mac.[11] A 0.035 percent mortgage-based multifamily subgoal for 2001-2003 would sustain and likely increase the efforts of both GSEs in the multifamily mortgage market, with particular emphasis upon the special affordable segment.[12]

The preamble to this Proposed Rule includes a more complete analysis of these alternatives, with a request for public comments on the alternatives.

5. Conclusion

HUD has determined that the proposed Special Affordable Housing Goal addresses national housing needs within the income categories specified for this goal, while accounting for the GSEs' past performance in purchasing mortgages meeting the needs of very-low-income families and low-income families in low-income areas. HUD has also considered the size of the conventional mortgage market serving very-low-income families and low-income families in low-

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Fannie Mae did not verify whether proceeds of seasoned multifamily loans it acquired were "recycled" into new lending per FHEFSSA requirements.

[9]If this option were selected, appropriate subgoal thresholds for the year 2000 transition period could be developed.

[10] A similar pro-rating technique is specified in HUD's regulations at 24 CFR, Section 81.14(d)(2), for purposes of calculating credit toward the multifamily special affordable subgoal. Specifically, the mortgage loan amount is multiplied by the proportion of units qualifying toward the special affordable goal.

[11] HUD has determined that the number of mortgage loans purchased by the GSEs in 1998 was as follows:

Fannie Mae	3,226,786
Freddie Mac	2,439,194

[12] If this option were selected, appropriate subgoal thresholds for the year 2000 transition period could be developed.

income areas. Moreover, HUD has considered the GSEs' ability to lead the industry as well as their financial condition. HUD has determined that a Special Affordable Housing Goal of 18 percent in 2000, and 20 percent in 2001-2003, is both necessary and achievable. HUD has also determined that a multifamily special affordable subgoal set at 0.9 percent of the dollar volume of combined (single family and multifamily) 1998 mortgage purchases in 2000, and 1.0 percent in 2001-2003, or one of the alternatives proposed here, is both necessary and achievable.